

Message Text

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ACTION ARA-10

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EO 11652: NA

TAGS: ECON, AFIN, CI

SUBJ: CHANGES IN WAGE READJUSTMENT POLICY

REF: SANTIAGO 2964

1. SUMMARY. AS PART OF ITS ECONOMIC RECOVERY PROGRAM, GOC HAS ANNOUNCED CHANGES IN WAGE READJUSTMENT SYSTEM WHICH WILL PROBABLY TEND TO KEEP REAL WAGES FROM RISING SIGNIFICANTLY, THUS REENFORCING GOVERNMENT'S AUSTERITY MEASURES. THIS IS EXPECTED TO PROVOKE STRONG CRITICISM FROM SOME SECTORS. END SUMMARY.

2. GOC ISSUED DECREE LAW 999 ESTABLISHING NEW POLICY ON WAGE READJUSTMENTS SHORTLY AFTER MINISTER OF FINANCE CAUAS GAVE BRIEF OUTLINE OF NEW SYSTEM TO PUBLIC (REFTEL). LAW HAS SUGAR COATING OF ONE-TIME WAGE BONUS OF E 20,000 IN APRIL FOR ALL PUBLIC AND PRIVATE SECTOR EMPLOYEES WITH LESSER AMOUNTS FOR PENSIONERS. IN MAY ALL WORKERS ARE TO RECEIVE ADVANCE OF E 20,000 TO BE REPAYED IN TWO STEPS FROM JUNE AND JULY WAGES.

3. JUNE WAGES WILL BE READJUSTED ACCORDING TO SYSTEM ESTABLISHED LAST OCTOBER, I.E., 100 PERCENT OF CONSUMER PRICE INDEX (CPI) INCREASE DURING FEBRUARY, MARCH AND APRIL. UNDER OLD SYSTEM SEPTEMBER READJUSTMENT WOULD HAVE BEEN PAID

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ON MAY, JUE AND JULY INCREASE. UNDER NEW SYSTEM SEPTEMBER

READJUSTMENT WILL EQUAL 100 PERCENT OF JULY, AUGUST AND SEPTEMBER CPI. SINCE SEPTEMBER CPI WILL NOT BE AVAILABLE UNTIL MID-OCTOBER, IT WILL BE ASSUMED FOR PURPOSE OF READJUSTMENT TO EQUAL ONE-HALF OF AUGUST INCREASE, WITH CORRECTION FOR ANY DEVIATION TO BE APPLIED TO DECEMBER READJUSTMENT. DECEMBER READJUSTMENT WILL BE COMPUTED IN SAME WAY AS SEPTEMBER.

4. PRIVATE SECTOR EMPLOYEES EARNINR AGES IN EXCESS OF TOP OF CIVIL SERVICE SCALE WILL NO LONGER RECEIVE MANDATORY WAGE ADJUSTMENT.

5. COMMENT:
EFFECT OF CHANGE
REAL INCOME WILL DEPEND ON
LEVEL OF INFLATION EXPERIENCED MAY AND JUNE COMPARED WITH JULY

AND AUGUST, AS THE FIRST TWO MONTHS ARE DROPPED COMPLETELY FROM READJUSTMENT COMPUTATIONS. IF MAY AND JUNE INFLATION IS

HIGH, AS CURRENT DEVELOPMENTS SUGGEST WILL BE THE CASE, AND
IF NEW AUSTERITY MEASURES RESULT IN LOWER INFLATION TREND BY JULY,

THEN CHANGE IN READJUSTMENT PROCESS WILL MEAN SOME LOSS IN INCOME AS COMPARED WITH PREVIOUS SYSTEM. ALSO, BY ASSUMING INFLATION FOR MOST RECENT MONTH EQUAL TO ONE-HALF OF PRECEDING MONTH, REAL WAGES COULD DROP FURTHER IF DECREASE IN INFLATION-- AS SEEMS LIKELY--WERE LESS. ANY AMOUNTS SO LOST WILL NOT BE FULLY COMPENSATED BY SUBSEQUENT CORRECTIONS DUE TO TIME LAG.

6. OFFSETTING THE DEPRESSIVE EFFECT ON REAL WAGES OF THE CHANGE IN SYSTEMS WILL BE FACT THAT AS INFLATION SLOWS AND READJUSTMENTS OCCUR, REAL VALUE OF WAGES WILL RISE. FINAL RESULT OF THESE VARIOUS FACTORS WILL DEPEND ON WHAT ACTUAL NUMBERS ARE, HOWEVER, IT APPEARS LIKELY THAT REAL WAGES OF WORKERS SUBJECT TO READJUSTMENT SYSTEM WILL BE HIGHER FOR THE SECOND THAN THE FIRST HALF OF THE YEAR, WITH THE 1975 AVERAGE ABOUT THE SAME AS THE AVERAGE FOR 1974, ASSUMING INFLATION FALLS IN ACCORDANCE
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WITH GOC EXPECTATIONS. THIS IS GENERALLY CONSISTENT WITH GOC'S AUSTERITY PROGRAM, BUT WILL BE CRITICIZED BY OPPOSITION AS GOVERNMENT ATTEMPT TO MANIPULATE SYSTEM TO ITS FISCAL ADVANTAGE. CONTRADICTORY STATEMENTS BY GOC OFFICIALS AS TO INTENT AND EFFECTS OF THESE CHANGES HAVE THUS ONLY SERVED TO CONFUSE THE ISSUE.

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